

Congressman Scott Garrett (R-NJ), Chairman

April 6, 2011

Chairman Ryan Introduces Budget Reducing Spending by \$5.8 Trillion



Today, the House Budget Committee will markup the FY 2012 Budget Plan. Some highlights of the plan are as follows:

Spending: A \$5.8 trillion spending reduction over ten years. That is a 12.6% reduction to all spending in CBO's baseline over the FY 2012-2021 period. The House GOP inherited a federal budget with spending at historic highs—24.3% of GDP in 2011 under the President's budget, the highest level since World War II. Spending would decline to 19.7% of GDP by 2018. By 2050, spending will have declined to 15% of GDP, the lowest level since the 1940s.

The Ryan plan accomplishes this by transforming two of the big three entitlement programs. Medicare would be transformed into a defined contribution program, which would prevent the program from going bankrupt, and end the program's long-term financial liabilities. The Medicaid program would no longer be an open-ended entitlement, but would instead be block granted back to the states. This would save taxpayers money, but it would also allow design Medicaid programs that more appropriately meet the needs of their citizens. The Committee budget also repeals Obamacare.

Quotes of the Week:

"Our Government has no power except that granted it by the people. It is time to check and reverse the growth of government which shows signs of having grown beyond the consent of the governed."

-Ronald Reagan, 1981 Inaugural Address

Reform: The Ryan budget cuts taxes by \$4.1 trillion over in order to repeal the tax increases in Obamacare and to an increase in the tax burden. It further provides for tax that would lower both the top individual and corporate tax 25% (both at 35% today). Tax revenues would not exceed year average as a percentage of GDP at any point in the ten-window.

Debt Elimination: The Ryan budget would put the country on track to completely eliminate the national debt (last accomplished by President Andrew Jackson) within four decades.

Current CR Expires After Friday; Chairman Rogers Introduces One-Week CR

With two days before the government runs out of funding authority, and with no signs of the Senate adopting a final DY 2011 budget, Chairman Rogers has introduced another short-term continuing resolution. The bill contains three items of note. **First**, it contains the FY 2011 Defense Appropriations bill, which is a \$7.6 billion or 1.5% increase above last year. It also includes \$158 billion for overseas contingency operations. **Second**, the CR contains \$12 billion worth of spending cuts, all of them included in H.R. 1. Spending cuts of note: \$832 million reduction to foreign aid, \$1.5 billion reduction to high speed rail, \$390 million reduction to LIHEAP, and a \$700 million reduction to the Clean Water and Drinking Water Revolving Funds. **Third**, the CR contains one rider of note to many conservatives—a ban on DC funding of abortion. This bill was filed, but is not yet scheduled for floor consideration. The House may consider it if there is not a final agreement.

The previous Congress failed to enact a final spending plan for FY 2011 (in fact, it failed to enact into law *any* of the twelve FY 2011 appropriations bills). On February 19, 2011, the House passed [H.R. 1](#), the FY 2011 Full Year Continuing Resolution Appropriations Act. This legislation would enact a final FY 2011 spending level (through the remainder of the fiscal year) \$61 billion below last year's spending and \$100 billion below the President's

request (approximately \$81 billion of this spending reduction was for “non-security spending”). The Senate has yet to pass any legislation wrapping up the FY 2011 process. So far this year, Congress has enacted two short-term continuing resolutions.

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The Ryan Resolution

The most serious attempt to reform government in a generation.

Well, so much for dodging entitlements. This year's trendy complaint, shared by the left and the tea party, that Republicans hadn't tackled the toughest budget issues was blown away yesterday with the release of House Budget Chairman Paul Ryan's budget for 2012. We'll now separate the real reformers from the fiscal chickenhawks.

Mr. Ryan's budget rollout is an important political and policy moment because it is the most serious attempt to reform government in at least a generation. The plan offers what voters have been saying they want—a blueprint to address the roots of Washington's fiscal disorder. It does so not by the usual posturing ("paygo") and symbolism (balanced budget amendment) but by going to the heart of the spending problem, especially on the vast and rapidly growing health-care entitlements of Medicaid and Medicare. The Wisconsin Republican's plan is a generational choice, not the usual Beltway echo.

That choice is clear enough by comparing the Ryan blueprint with the 2012 budget that President Obama rolled out only two months ago. The nearby charts show the difference in federal outlays overall and as a share of GDP over the next decade. Mr. Ryan proposes to spend \$6.2 trillion less, return spending to its modern average of roughly 20% of GDP, and add \$4.7 trillion less to the national debt.

Mr. Obama would keep spending at 24% of GDP even before ObamaCare fully kicks in, while running annual deficits of \$600 billion a year or more despite trillions of dollars in tax increases.

Some House conservatives are grouching that Mr. Ryan's proposal doesn't cut spending enough to balance the budget in 10 years. This is a foolish complaint. Mr. Obama will be happy to balance the budget too—at 24% of GDP, which means far higher taxes. Republicans should keep their eye on what Milton Friedman understood was the real burden of government, which is spending.

The Ryan plan would chop \$179 billion from the 2012 White House budget and another \$241 billion in 2013. This would be the largest two-year savings since the demobilization of the military after World War II. Mr. Ryan would cut funding for corporate welfare and hundreds of ineffective programs, reform agriculture subsidies, reduce the federal work force by 10% and repeal ObamaCare, among other good ideas.

Mr. Ryan's budget would reduce federal borrowing to 2% of GDP by 2017, which is a manageable level of new debt and a huge improvement from the roughly 10% of GDP the Treasury is borrowing now. Given the epic hole we are in, this would be a historic achievement.

As for entitlements, the House GOP wants to let the states run Medicaid in return for an annual fixed payment or "block grant," letting Governors experiment with ways to save money and provide better care. This is the way welfare was successfully reformed in the 1990s, and it would give states more control over their fastest-growing budget item.

On Medicare, the Wisconsin Republican would phase in reforms for Americans under 55 years old. Medicare currently pays doctors and hospitals directly on a fee-for-service model that is price-controlled and increasingly unaffordable. Fewer doctors want to see Medicare patients and, among other deficiencies, it lacks true catastrophic coverage.

Mr. Ryan would create a "premium support" system in which government would pay a subsidy of roughly \$15,000 to private insurers chosen by seniors. This means at age 65 you would be able to keep your same insurer, with the feds paying for that insurance instead of your employer. That would slow the growth of spending over time through competition and senior choice, rather than continue on Medicare's current path of government-rationed care.

Tackling Medicare is the politically riskiest part of this budget, as Democrats are already returning to their old stand of denouncing any change as a "war on the elderly and poor" (as Illinois Democrat Jan Schakowsky put it). These are the same Democrats who oppose smaller spending cuts on grounds that entitlements are where the real money is. The truth is they want only token spending cuts of the kind that Mr. Obama's budget offers.

For that political reason, Mr. Ryan decided not to walk point on Social Security, though everyone knows that retirement entitlement is also unsustainable with \$17 trillion in unfunded liabilities. As a policy matter, Social Security is also the easiest problem to solve—change the benefit formula, means test benefits, raise the retirement age, and more. But you can't blame Republicans for dodging at least one political buzzsaw if Mr. Obama is going to continue to dodge all fiscal responsibility.

Unlike many Republicans and some in the tea party, Mr. Ryan understands that the budget can't be balanced with spending cuts alone. Above all, we need faster economic growth to drive higher incomes and more revenues. So Mr. Ryan also proposes a tax reform that would cut the U.S. personal and corporate tax rate to 25%, in return for eliminating loopholes and credits that allow companies like Whirlpool and General Electric to pay little tax.

Chairman Dave Camp has been pushing a similar reform in the tax-writing House Ways and Means Committee, and he deserves credit for letting Mr. Ryan roll it out as part of the budget. Republicans will have a better chance of winning the fiscal argument if they keep explaining that their reforms are essential to reviving growth and raising middle class incomes.

Since they only control the House, Republicans can't expect to pass all or even most of these reforms this year. But in rising to meet our main fiscal challenges, they are honoring their pledge to voters last year and offering voters a serious governing platform. Mr. Ryan is showing Americans that there is an alternative to Mr. Obama's vision of the U.S. as a high-tax, slow-growth, European-style entitlement state.

The GOP political bet is that this debate won't be another replay of 1985, 1995 or 2005 because the political times have changed. Our fiscal problems are far deeper, and Mr. Ryan's hope is that the American people realize this and are willing to reward politicians who address those problems, rather than politicians who say we can keep spending and borrowing ad infinitum.

Republicans in Congress will need to rise to Mr. Ryan's occasion, and in particular so will GOP Presidential candidates. The first voter test for those candidates should be which of them are missing in action from the debate that House Republicans are kicking off. If we fail to reform the entitlement state now, we will do it eventually. But the price and pain will be so much greater.